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Pensions & Investment Age

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Termination freeze fails

By Joel Chernoff

WASHINGTON — During the closing days of Congress, Sen. Howard Metzenbaum, D-Ohio, was unsuccessful in attempting to place a nine-month freeze on terminations of pension plans that would yield the plan sponsors reversions of $1 million or more, but the attempt was unlikely to be the last.

Sen. Metzenbaum tried to attach his amendment barring government agencies from issuing approvals for such terminations onto other bills but was blocked.

Some observers believe the senator's involvement in the issue, along with efforts by the House Select Committee on Aging, signals a growing interest by Congress on the issue of corporate recovery of surplus pension assets.

"I think the reversion issue will be an extremely hot issue" next year, said Ed Davey, exec-

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Two others may join Washington, Oregon

Funds add $200 million to buy-out

By Steve Hemmerick

SEATTLE — The Washington State Investment Board, and the Oregon Public Employees Retirement System have committed $100 million each in pension fund money to Kohlberg Kravis Roberts' newest leveraged buy-out fund, and at least one other major state fund and one major corporate fund are considering investments.

Leveraged buy-out funds, an increasingly popular but still uncommon form of investment, buy whole companies or subsidiaries, mostly with borrowed money.

Washington's commitment is 10 times the size of its previous one to a leveraged buy-out fund.

This fund, the fourth by Kohlberg Kravis, could range up to $1 billion in equity assets and is probably the largest buy-out fund so far. It could be fattened with a sizable commitment from the Michigan State Employees Retirement System, which is considering a commitment. Trustees of Warner-Lambert's $550 million fund have made no commitment yet, but Joseph Joshi, director of pension investments, said they are "looking at it."

Because leveraged buy-out funds borrow most of their money for purchases in addition to the fund's own equity assets, the actual purchasing power of the fund could be several billion dollars.

Washington's commitment is 10 times the size of its previous one to a leveraged buy-out fund

That could mean its equity investors will be limited partners in larger companies, and it will push pension funds further along in the direction of owning not only stocks, but companies themselves.

Oregon contributed $25 million to the previous Kohlberg Kravis fund while Washington committed $10 million and Michigan contributed $15 million.

Bill Unverzast, senior investment officer for the $3.5 billion Oregon system, said the system made the decision, in part, on the basis of satisfaction with the investment return from the previous fund.

William A. Amerman, director of investments for the Michigan fund, said he expects his fund will be a "reasonably large player" this time. Mr. Amerman said he invested in the leveraged buy-out fund because he is interested in "making money" for the Michigan state retirement fund. In Olympia, Wash., John Hitchman, chairman of the investment board, said the investment returns on the previous leveraged buy-out investment are "excess of market," although they are not "hard rate-of-return numbers." But he added, they are based on "conservative appraisals."

According to a spokesman for Kohlberg Kravis, the company's previous leveraged buy-out fund was about $320 million. While most leveraged buy-out funds borrow as much as 10 times the equity amount, Kohlberg Kravis claims its ratios aren't that high.

A leveraged buy-out involves the purchase of a company, subsidiary or division for cash as a long-term investment. Kohlberg Kravis uses the term "management acquisition," contending it is different from most competitors because the loans aren't secured with assets.

In addition to the equity money invested, the leverage of borrowed money is used to "hype" the return.

This year, Kohlberg Kravis has

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Morgan Stanley to steer Central Teamsters fund

Firm may run all fund's equity assets, farm out remainder

By Pavan Sahgal

NEW YORK — Morgan Stanley Inc. is likely to manage by itself the entire $1.6 billion equities portfolio of its newly won Central States Teamsters pension account.

Morgan apparently will place the equity portfolio of the $4.7 billion Teamsters Central States, Southeast and Southwest Areas Pension Fund under the management of its subsidiary, Morgan Stanley Asset Management.

The move would be a significant reversal of the way large pension funds are managed. Typically, a large fund allocates the assets to several managers to gain a diversity of investment styles.

The fund's current asset mix is 10% real estate, 35% equities, 42% fixed income and 13% short term.

"The world is eclectic," said Barton M. Biggs, chairman of Morgan Stanley Asset Management, a wholly owned subsidiary. "There is never any one style of investment that is always right.

"We don't think that stocks are always the right place to be. Or that any particular kind of stock, small growth companies, quality growth companies, or low P/E stock, is best. Or that funds should always have a certain percentage of their assets in something like gold or real estate. You have to structure your asset mix to a changing world."

Generally, however, Morgan has tended to be a growth and value investor.

The Central States Fund is the largest multiemployer fund in the United States. It has 275,000 active participants in 40 states, 115,000 retirees and 12,500 contributing employers.

In its profiles of the top 200 funds Jan. 24, *Pensions & Investment Age* listed the Teamsters fund's equity managers as American National Bank and Trust Co. of Chicago, Alliance Capital Management Corp., BEA Associates Inc., Crocker Investment Management Corp., MacKay-Shields Financial Corp., Mercantile National Bank, Dallas and Oppenheimer Capital Corp.

Additionally, Equitable Life Assurance Society of the United States managed some bonds, equities and real estate, which also will come under Morgan's management.

"We are not going to make any decisions about the current managers until we view the matter thoroughly," said Mr. Biggs. "We will take awhile to review the present managers' performance."

Morgan was selected to manage the fund's assets, as the named fiduciary, under a 10-year contract announced Nov. 17, replacing Equitable, which had managed the assets since October 1977. The changeover will become effective in January.

That Morgan would manage the entire equities portion of the fund was the basis of its presentation to the Teamsters' trustees, sources said.

"We have to go through the courts and the Department of Labor to get their permission (to bring the equities under Morgan Stanley management)," said Mr. Biggs.

"It is our intention to file that kind of application just as soon as we can."

Equitable also had requested and received a waiver from the courts and Labor Department to run a portion of the equity holdings, but Morgan seeks to run all of it.

Mr. Biggs did not rule out changes in the fund's asset mix.

"All things being equal, we would probably increase (the equities portion)," he said. "But we have to look at the stock and bond portfolios. We don't really know yet."

However, under the terms of a 1982 consent decree handed down by the U.S. District Court of Illinois, Teamsters assets under direct management of a named fiduciary may not exceed 25% of all assets under management. Morgan has $7

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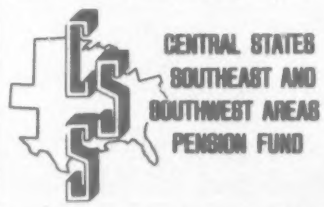
$4.7 billion fund sought fresh approach

By Linda Savage Ruhe

CHICAGO — The $4.7 billion Teamsters Central States pension fund hired Morgan Stanley Inc., New York, as named fiduciary be-



cause the broker-dealer offered a fresh approach to the management of assets and a staff that convinced the trustees it could deliver that approach, according to George Lehr, executive director of the fund.

As named fiduciary, Morgan Stanley has the authority to manage all of the assets itself or to hire, monitor and fire other investment managers if it so desires.

According to a Teamsters fund official, Morgan Stanley has shown interest in managing up to $2 billion of equities.

Morgan Stanley replaces Equitable Life Assurance Society of the United States. Equitable had been appointed interim fiduciary by the Department of Labor in the fall of 1977 after the forced resignation of the plan's trustees amid allegations of widespread corruption.

A consent decree reached between the Labor Department and the fund in September 1982 regarding those allegations required the fund to employ an outside fiduciary for the next 10 years.

Equitable managed some of the assets itself, but hired 12 other managers to share the chore including American National Bank and Trust, Alliance Capital Management and BEA Associates as equity managers; Massachusetts Financial Services and Mellon Bank for fixed income; and Victor Palmieri and Co. for real estate.

Morgan Stanley was selected from a slate of 13 prospective fidu

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Late news

Thome resigns post

SACRAMENTO, Calif. — Michael Thome, chief executive officer for the $10 billion California State Teachers Retirement System, has resigned effective Dec. 30. Mr. Thome has been with the retirement system since 1968. No further details were available.

Simmons settlement

WASHINGTON — The Department of Labor has reached a proposed settlement with businessman Harold Simmons and his co-defendants in a suit over alleged misuse of $25 million in plan assets from nine pension and profit-sharing plans and trusts in corporate takeover attempts (*Pensions & Investment Age*, May 16 and 30).

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Research firm chosen as consultant

Western Teamsters hire SRI

By Steve Hemmerick

SEATTLE — Trustees of the $4 billion Western Conference Teamsters Pension Trust have authorized the hiring of the research firm SRI International as a trust consultant.

Fund officials said trustees were aware of the major pension consultants in the country, but wanted somebody else to do what was described as the trust's most comprehensive long-range planning study.

Joseph Edgar, trust co-chairman, said fellow trustees, in choosing a consultant, "looked around to find a disinterested party. We can't go to money management."

A trust spokesman added that a number of consultants are in "the performance measurement business," and a "lot of them have lines of business investment." Trustees, he said, wanted a firm "not really in the institutional investing business," and one that would do "long-range planning."

One Los Angeles senior vice president with an investment counseling firm told *Pensions & Investment Age*, "You can't tell me the consultants don't recommend themselves."

Yet, told of the Teamsters' decision to hire SRI, one major West Coast consultant said, "I didn't know SRI was in (the pension consulting) business."

A public relations spokeswoman for SRI, Debby Rose, said that until 1969 the firm was tied to Stanford University; it was called Stanford Research Institute before it became a separate, non-profit firm.

She said she didn't know what pension consulting SRI had done previously. SRI does have a financial analysis and long-range planning group, and had done financial planning work for world governments and major businesses.

While SRI's hiring has been authorized, financial contracts have not been finalized, according to Charles Storke, a partner with the San Francisco law firm Pillsbury, Madison & Sutro, which serves as general counsel to the trustees.

One of the things the Teamsters will be deciding is whether to divide a large amount of the trust assets among several money managers. Prudential Insurance Co. is now its major money manager.

Asked if it would hire a number of other money manager, Mr. Edgar said, "I don't know. That is why we are going to SRI."

But a spokesman for the Teamsters said the trust already has put on a performance horse race of a kind, directing Prudential, Aetna Life & Casualty Co., and Equitable Life Assurance Society of the United States to manage an equity common stock fund of $150 million. The test began in August 1982, and likely will end after a couple of years or a market cycle.

According to Mr. Edgar, it is not certain the Teamsters trust will make any significant changes. He said some of the trustees are happy with Prudential.

Exactly how the Teamsters trust assets are divided inside Prudential isn't clear. Mr. Edgar said he didn't have any figures handy, and Anthony Hovey, of Anthony F. Hovey & Associates, a Seattle-based planning consultant for the Teamsters, couldn't be reached for comment.

"What we want to do is take a look at what SRI recommends, and act on the recommendations," Mr. Edgar said. While the study will include much more than performance measurement work, a trust spokesman said some performance measurement will be involved to "see where the trust has been." ■

$101.4 million due fund deferred

By Steve Hemmerick

BERKELEY, Calif. — The state has deferred "to the last penny" its $101.4 million current-year contribution to the University of California retirement fund.

State politicians have promised the deferred contribution will be repaid by "amortizing," or paying it back to the fund during the next 30 years, according to Patricia Small, the university's associate treasurer.

California Gov. George Deukmejian and the Legislature, citing a legislative analyst's report, believed the university's actuarial assumptions were "overly conservative" and that the state needed the money more than the retirement system, which all sides agree is "pretty well" funded.

According to Lowell Paige, a retired professor who had been a lobbyist for the university system, the university regents "objected strongly" to the deferral. "But there was little the regents could do," he added.

Also, the interest earning assumption, the money the $4.5 billion retirement system will earn on its investment, has been increased to 8% from 7%. One apparent result is that the state contributions to the retirement system will be smaller, at least for the next few years.

Mr. Paige, assistant to the educational adviser to the governor, said the state contribution to the retirement fund in next year's budget is about $85 million, down from the deferred contribution of $101.4 million this year.

According to state officials, no lawsuit appears planned by university professors against the deferral. A lawsuit was filed by the California Teachers Association, however, when Gov. Deukmejian cut the projected $211 million contribution to the California State Teachers Retirement System to $1.

Meanwhile, the governor is projecting a $145 million state surplus for the current fiscal year ending in June. If the state had not projected a surplus of more than $100 million by January, a sales tax increase would have been triggered. The one-cent increase, continued until such a surplus is reached, would bring the sales tax to 7.5% in San Francisco and Los Angeles and 7% elsewhere.

The governor publicly has shunned any tax increases, and turned the earlier projected $1.5 billion state deficit into a projected $145 million surplus.

Although apparently not directly related to the deferred contribution to the university fund, the University of California at Berkeley has scheduled a conference on "Employee Rights in Public Sector Pension Plans." The conference, scheduled for January, is co-sponsored by the university's Institute of Industrial Relations, and the Public Employee Retirement System's Retirement Betterment Committee.

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Late news

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The settlement, which must be approved by a federal court in Illinois, also would resolve other litigation brought against Mr. Simmons by Jefferson Trust and Savings Bank of Peoria, trustee of the Keystone Master Deferred Incentive Trust.

The settlement limits equity and debt investments by the funds to low levels, both collectively and individually. Also, it names Torray, Clark and Co., Bethesda, Md., as independent fiduciary for the shares of Amalgamated Sugar Co. owned by the plans.

The nine funds include the Keystone pension and deferred incentive plans, the T.I.M.E.-DC Inc. pension plan, the Contran retirement and profit-sharing plans, the Amalgamated Sugar Co. trusts for hourly and non-bargaining employees, and Gibson Products of Shreveport Inc. profit-sharing plan and trust.

Search for consultant

EL CENTRO, Calif. — The $30 million Imperial County Employees Retirement Association is considering hiring a consultant for performance evaluation, and is scheduling interviews for that job, according to Barbara McFetridge, retirement officer.

She said the consultant, when hired, would review the performance of the retirement system's two managers, Hero Management, New York, and Security Pacific Investment Managers Inc., Los Angeles.

Security Pacific has the bulk of the retirement system's money as Hero was hired earlier this year and given a "small amount" of assets for equity management.

Templeton gets OK

WASHINGTON — The comptroller of the currency approved Templeton Investment Counsel Inc.'s application to become a limited power trust company, with authority to create pooled funds. Templeton manages more than $500 million in pension and other institutional accounts, according to Tom Hansberger, president.

Aerospace Corp. hires

EL SEGUNDO, Calif. — Aerospace Corp., with $252 million in employee benefit assets, has hired First Pacific Advisors, Los Angeles, as an equity manager. Although Thomas O'Connor, retirement fund manager, declined to confirm that First Pacific had been hired, he did say the fund no longer has Delphi Capital Management, Boston, as an equity manager. The existing equity manager is Quest Advisory Corp., New York, and bond managers are Rosenberg Capital Management and Robert C. Brown, both of San Francisco.

Hartford buys interest

HARTFORD, Conn. — The Hartford Insurance Group will purchase a 23% interest in Thomson McKinnon Inc. for a total of $75 million in newly issued stock, according to a Hartford Group spokesperson.

Until now, the New York City-based international brokerage firm has been employee-owned through the company's employee stock ownership plan.

Although Hartford said it has no plans to move for a controlling interest in Thomson McKinnon, the two companies have a long-term agreement that provides for the marketing of Hartford's life insurance coverages. Initially McKinnon will sell customers Hartford's universal life product, The Solution, which is paying about 11% presently, and its annuity products.

The sale will enhance Thomson McKinnon's capital to more than $210 million and it reportedly completes the Hartford Group's strategy of targeting distribution avenues with independently managed affiliates for the sale of its life insurance product.

Firm hires manager

BROADVIEW, Ill. — Continental Water Systems, a water purification company, hired Hahn Holland & Grossman, Chicago, to manage its $2.5 million pension fund, according to sources. The fund reportedly was run by a Milwaukee investment firm. The company did not return phone calls.

Painters fund adds 1

DORCHESTER, Mass. — Painters, District Council Local #35 hired Lazard Freres Asset Management, New York, to invest its pension fund, according to sources. The union fund was managed by Shawmut Bank of Boston. The bank reportedly was not retained. Fort Hill Investors Management Corp., Boston, was retained. The pension fund totaled $8.2 million as of June 1982, according to the Money Market Directory.

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$750 million Damson offering may be largest ever in oil, gas

NEW YORK — Damson Securities Corp. has unveiled what is believed to be the largest public offering of oil and gas investments for tax-exempt investors.

The Damson 1984-85 Institutional Oil and Gas Income Fund was registered with the Securities and Exchange Commission as a series of limited partnerships totaling up to $750 million and featuring production insurance, a new angle in tax-exempt offerings.

Graham Main, senior vice president of the institutional division, said the $750 million offering will operate almost identically to Damson's four previous institutional funds, except for the addition of the production insurance.

Production insurance, he said, "protects the downside risk of the investment" by insuring against substantial decreases in the rate of production and in prices when there is a reservoir deficiency.

He said Damson decided to use production insurance as a means of helping plan sponsors and other tax-exempt investors measure the risk of the investment. "In real estate, you can see the building you bought. When you buy production, you can't see it. This enables the plan sponsor to 'see' and 'touch' what he's bought," Mr. Main said.

Damson has done about $86 million in tax-exempt limited partnerships without the insurance.

Mr. Main said there is no marketing reason for using insurance now. "It was a question of the insurance industry ... determining there was a way to do it, the availability of an insurance company that would do it."

He said he believes this is the first time an income program has offered production insurance.

St. Paul's Surplus Lines Insurance Co. is the insuror. St. Paul's will be insuring the difference between the amount of the insurance

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Cash Management

An industry on the rise: NCCMA 1983

By Richard J. Gillespie

ST. LOUIS — The cash management industry is on the rise. That's the impression a newcomer to cash management would have received from the fourth annual cash management conference in St. Louis earlier this month.

Although the fear had been expressed at previous conferences that cash management would not survive any protracted drop in interest rate levels, no waning of attention was in evidence in St. Louis, and the 12-month average yield on money market funds has dropped about 5% since November 1982.

Instead, conference attendees switched their attention generally from issues involving the maximization of the time value of money (float), to the issues of bank pricing and the cost of good cash management. To this end, conferees demonstrated curiosity in the use of electronic cash management networks, on ways to pare down bank costs and on the incorporation of new treasury workstations as tools to reduce cash management staffing costs.

Treasury workstations were the subject of considerable interest, and there were new product announcements from many major banks, including the two largest, Bank of America and Citibank.

At the same time, cash managers were blitzed with an array of product innovations in the exhibit hall; the cocktail parties and receptions seemed to go on until the early hours of the morning.

The mood of the conference might well-have been summed up by an announcement in the speech by J. David Barnes, chairman of Mellon Bank, that the Pittsburgh bank had budgeted more than $250 million for the development of cash management technology for this decade.

Not to be outdone, the Bank of America had announced at a special breakfast that it was awaiting word from California on whether it had won a bid to process transactions for the Cal-West Automated Clearing House, an electronic payments network operated among banks out West (see *Cash Notes).*

Another feature of the conference was the lack of hysteria surrounding the Federal Reserve Board's operations.

The Fed's panels at last year's conference

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Largest industrials' cash holdings grew

NEW YORK — The largest 100 industrial corporations booked significant improvements in cash positions for the 12-month period ending June 30, an indication of the strength of the recovery.

With industrial production up 7.1% during the period, retail sales up 9.3% and wholesale prices up only 1.4%, the cash and short-term holdings of the nation's largest industrial corporations grew and grew.

By June 30, the cash kitties of the Fortune 100 corporations had swelled by 23.8% from figures shown 12 months previously. The total of all 100 companies stood at $57.5 billion, according to figures produced by Wright Investors Service of Bridgeport, Conn.

The top 50 corporations' cash positions grew 24% as a whole, while the bottom 50 experienced a 22% increase.

Where the top 10 companies raised their corporate cash positions by 29%, the bottom 10 had a moderately lower 7.8% increase from June 1982 numbers.

The corporate cash and short-term investment holdings of the 100 largest industrial corporations was up 3.1% from figures reported March 31.

The top 50 corporations showed a combined increase of 4.9%, and the bottom 50 companies experienced a decline of 2.8% during the second quarter.

The overall growth in cash holdings reflects the strength of the recovery, said Stephen Roach, senior economist at Morgan Stanley.

"These numbers are consistent with a period that has been one of the hottest periods of the rebound in earnings and liquidity in the corporate sector," Mr. Roach said. Third-quarter earnings and output results are also very good, he added.

"There has been a very rapid increase in volume being spread over a somewhat reduced, and in many

Continued on page 19

Changes in cash holdings of top 100 industrial corporations
(quarter ended 6/30/83)

Company	Cash & short-term investments ($ millions) 1982	1983	% change '83 vs.'82
10 largest cash positions among the Fortune 100 corporations			
General Motors	$5,413	$2,935	84.42
IBM	4,446	1,378	222.64
Exxon Corp.	3,448	2,912	18.41
General Electric	2,638	1,822	44.79
Standard Oil - Calif.	2,564	2,567	–0.12
Ford Motor	2,487	2,624	–5.22
Texaco	2,031	2,650	–23.36
Standard Oil - Ind.	1,928	878	119.59
Chrysler	1,571	1,090	44.14
Gulf Oil	1,424	1,239	14.93
10 largest increases in cash and short-term investments			
General Dynamics*	$243	$7	3,368.57
Greyhound	19	3	668.00
Signal Cos.	650	95	584.11
LTV	311	56	454.46
Caterpillar	154	38	305.26
Aluminum Co. of America	267	68	292.65
Sun Company	1,186	330	259.39
Int'l Business Machines	4,446	1,378	222.64
Union Pacific	406	139	192.09
McDonnell Douglas	195	76	156.18
10 largest decreases in cash and short-term investments			
Continental Group	$37	$50	–35.52
Union Carbide	156	249	–37.35
Mobil Corp.	1,328	2,163	–38.60
Int'l Paper	584	971	–39.89
Phillips Petroleum	723	1,337	–45.92
Coastal Corp.	105	223	–52.83
Xerox Corp.	220	504	–56.43
McDermott	95	264	–64.20
Lockheed Corp.**	32	92	–65.22
Standard Oil - Ohio	157	685	–77.08

Bendix (acquired by Allied Corp.), Western Electric (subsidiary of AT&T), Agway, and Land O' Lakes have been withdrawn from this list. Champion Intl., Archer Daniels, Heinz (H.J.), and Bristol-Meyers were substituted.

*Quarter ended 7/3/83.
**Quarter ended 6/26/83.

Compiled by Hari Kapadia of Wright Investors Service, Bridgeport, Conn.

The Fed is winning the war

Corporate stance is defensive in continuing battle over float

By Richard J. Gillespie

ST. LOUIS — The Federal Reserve Bank is winning the war against float, which means corporations are losing, according to Jeremiah J. Mahoney, manager of strategic planning and analysis at Xerox Corp.

Xerox alone kissed goodbye almost $25 million in float when the Fed opened a regional check processing center in Buffalo, N.Y., he told a gathering at the annual cash manager's conference in St. Louis.

But Xerox has now sidestepped the Fed's advances by switching to the electronic payments mode and renegotiating its trade payment terms to make up for the loss of float.

So as the Fed applies its screws to corporate and banking float, Xerox is one corporation that will not be squealing. It built its float advantage into its trade payment terms when it started the electronic program.

A number of other major U.S. corporations now are paying each other electronically in a pilot test organized by the National Automated Clearing House Association. The system permits invoice and supporting payment information to accompany the payment.

What makes the system attractive is that trade payment terms can be renegotiated when corporations join the program because electronic payments made through the automated clearinghouse offer immediate availability of funds.

Electronic money can be invested up to six days earlier by the payees, who also get significant administrative and processing cost reductions through the elimination of check handling and postage, as well as the reduction of invoice to payment reconciliation expenditures.

Although the idea of electronic corporate trade payments was scoffed at when it was first suggested, cash managers did not scoff at the National Corporate Cash Management Association conference.

The conference sessions on the corporate trade payment pilot held at the conference were well-attended — one indication that corporations now take the idea more seriously.

"If the Fed is winning the war, then you are going to lose the time value of money, and you might just as well get out and try and protect what you can immediately," said Mr. Mahoney. Renegotiating contract payment terms and joining the pilot test is one way out, he said.

Standard payment terms quoted for this type of payment are 2/14 net 34, he said. That means the payment is due within 34 days, but there is a 2% deduction if it arrives within two weeks.

The pilot test itself, due to be completed Dec. 31, is now ready to go forward into an "operational phase," said Glenn Briggs, chairman of the NACHA steering committee.

Most encouraging for the advo-

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Company cash . . .

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cases sharply reduced, fixed costs," he said.

"The interesting thing that these numbers tell me is that a lot of improvement, with the exception of IBM, has been coming in the beleaguered smokestack industries (metals, autos and heavy machinery) that have experienced very sizable cyclical growth in output."

The increase in manufacturing output in the first 10 months of the expansion was about 20% faster than in earlier expansions, he said.

Among highlights for the quarter, several aerospace manufacturers (and their suppliers), and two of the three auto giants, continued to book vast amounts of cash. Among the aerospace companies:

• **General Dynamics Corp.** At the end of the first half, it held $243 million vs. only $7 million a year previous.

• **Signal Cos.** It listed $650 million this year and just $95 million in 1982.

• **LTV Corp.** $311 million at the end of the first half versus only $56 million at June 30, 1982.

• **McDonnell Douglas Corp.** held cash of $195 million compared with $76 million in 1982.

• **Lockheed Corp.'s** position was down 65% to $32 million. A spokesman said the company had taken in major cash receipts, particularly on government contracts, but used the cash to pay down borrowings.

The spokesman added that because of the volatile nature of cash flows in the aerospace industry, end-of-quarter cash positions could be very misleading. A single government payment "the following day," he said, could change the whole story.

Among the auto makers:

• **General Motors Corp.** had more cash than any other non-financial corporation in America, $5.4 billion, considerably more than the $2.9 billion booked in 1982.

• **Chrysler Corp.** had a portfolio valued at $1.57 billion on June 30, up from $1.09 billion last year. The automaker paid the U.S. government $400 million last June, and another $800 million in August. Its portfolio stood at about $500 million in mid-November, according to a spokesperson.

Other big gainers:

• **Greyhound Corp.** gained to $19 million from $3 million in June 1982.

• **Caterpillar Tractor,** up to $154 million from $38 million the same time last year as a result of tax refund in early April, and continued inventory sell-off.

Also booking large gains, **IBM Corp.** held $4.45 billion, the second largest cash position among U.S. non-financial corporations and a 223% increase on the year.

According to a spokeswoman, IBM's increase reflects "a great year."

Figures to the end of the third quarter, she said, were even better. For the first nine months of 1983, IBM had sales of $14.0 billion compared with $10.16 billion for the 1982 period.

Elsewhere, the oil companies seemed to be losing their cash fastest. **Standard Oil Co. (Ohio)** saw the biggest decline for the 12 months, with a 77% drop to $157 million from $685 million in 1982.

Industry rising . . .

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were heavily attended, even tense affairs.

By contrast, the "Federal Reserve — The Future with Question Session" held on the final day of the conference in St. Louis turned out to remarkably routine.

At this session, Elliott McEntee, an associate director with the bank operations division of the Federal Reserve, said the bank originally had estimated $2 billion would clear faster with the implemention of the noon presentment program and that it had been "right on target."

According to Mr. McEntee those correspondent bankers who warned that noon presentment would bring a "massive shift" in check clearing volume to the Fed, were proved wrong because "the actual share of checks processed by the Fed continues to decline," he said.

Attendees also heard, although elsewhere, that at least six banks had introduced fractional availability for their corporate clients. With fractional availability, a proportion of credit on checks is deferred by one additional day.

Most banks preferred to use fixed availability.

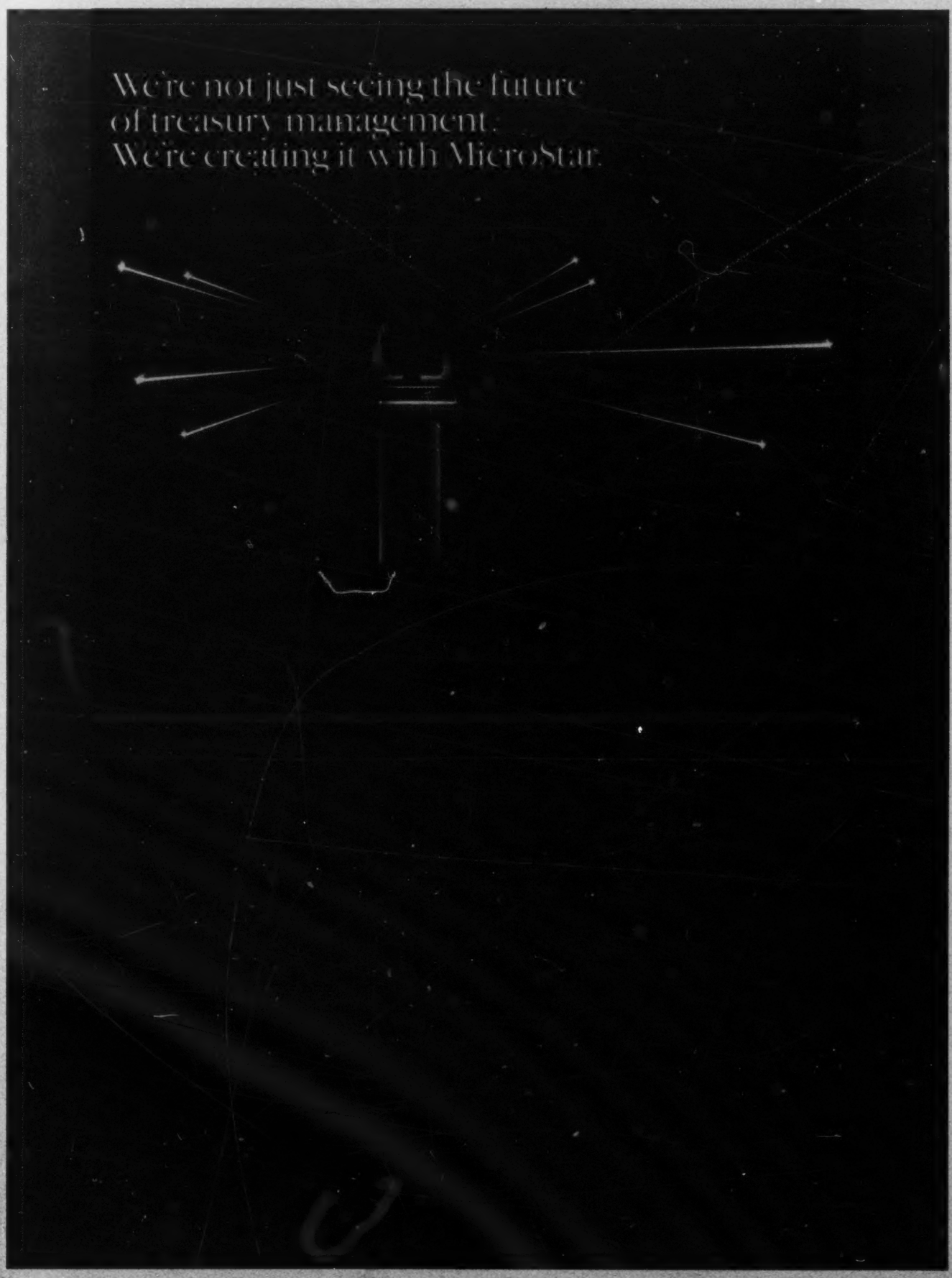
Last Aug. 1, fractional availability was introduced to cover the Fed's interterritory float.

Elsewhere, Randolph Coleman, a senior vice president at the Federal Reserve Bank of Cleveland, said the cost of wire transfers would be "revised upward" in 1984, and added it "would involve more than just transaction fee increases." There also will be new software for FedWire users, and the possibility of using encryption devices to enhance network security is being investigated.

The Fed's progress is marked by the level of float it carries in its check clearing operations. This is now down to a daily average of about $900 million, from $2 billion last February, according to Mr. McEntee.

The mood of the conference was perhaps struck upon by Mr. McIntosh when he told cash managers on the first night: "If you are devoting your energies entirely to the day-to-day mechanisms of cash management, and neglecting to plan for a radical change in the future environment, you may find yourselves quite unprepared to function effectively in a very different world indeed.

"Old practices just won't be possible in the future, nor should they be," he said. ■



Corporate Finance

Weyerhaeuser Capital debt issue used delayed rate-fixing option

New pricing mechanism locks in spreads

By Pavan Sahgal

NEW YORK — An innovative pricing mechanism used by Morgan Stanley & Co. in a $60 million Eurodollar debt issue for Weyerhaeuser Capital Corp. enables the issuer to lock in favorable spreads relative to U.S. Treasuries and also harvest gains if Treasury rates decline in the next seven months.

The new corporate financing technique, called delayed rate-fixing option, hedges borrowings without inflating corporate balance sheets, which would be the case if firms tried to hedge their own deals by investing in Treasuries.

Although the Weyerhaeuser transaction is the first such deal done by an investment bank, Citicorp and Morgan Guaranty Trust Co. privately structured a similar deal in May.

The new corporate financing technique hedges borrowings without inflating corporate balance sheets

More investment banks are likely to copy the technique, especially because many corporations have been holding back from issuing long-term debt this year despite attractive spreads over Treasuries.

The financing strategy is of special relevance to corporate financial officers who need the funds but have been opting for short-term financing in the strong belief that long-term interest rates will improve.

"Proceeds from the transaction, which we handled for our subsidiary, Weyerhaeuser Real Estate Corp., are being used to pay down short-term debt," said William C. Stivers, treasurer at Weyerhaeuser.

When issuers decide to go to market, they consider corporate spreads relative to Treasuries and the absolute Treasury level in making their financing judgments.

"What we've really done is separate the financing decision into the two components, allowing clients to complete an issue, but providing a mechanism whereby they can participate in any further improvement in Treasury level," said Paul J. Mazzilli, product manager for futures and hedging at Morgan Stanley.

The Weyerhaeuser issue, offered in London Oct. 28, raised $60 million via seven-year, 11.5% coupon Eurobonds. The bonds also had four-year warrants that paid $20 per warrant to the issuer.

The warrants give investors the right to purchase additional bonds, of 1990 maturity and 11% coupon, during the next four years.

Weyerhaeuser saved an estimated 35 basis points vs. the Treasury yield curve in the Eurodollar offering. There might be additional savings if Treasury rates decline.

If the warrants are not exercised, Weyerhaeuser's borrowing costs would be even lower.

Here's how the transaction works:

A corporation completes a so-called host transaction, which may be any issue, for any product, in any capital market that gets the issuer the best interest rate. The financing could be a Eurobond issue, a dual-currency transaction, or even a deal using interest-rate swaps.

The host issue locks in a rate the issuer will pay investors.

Next, the investment banker and the issuer sign a private-package hedging agreement, totally separate from the financing.

In the Weyerhaeuser deal, Morgan Stanley guaranteed the issuer a predetermined spread through seven-year Treasuries.

Under the contract, if rates decline in the next seven months — as Weyerhaeuser expects — it has the option of choosing a date on which Morgan will make a lump-sum payment to Weyerhaeuser based on the interest rate at the time, lowering the overall borrowing costs.

If rates increase, however, Weyerhaeuser will have to pay Morgan.

If the balance swings in the issuing corporation's favor, as it presumably anticipates, a 50-basis point change in Treasury rates could be worth as much as $1.5 million to the firm. Because the relationship is not totally linear, a 100-basis point move could be worth more than $3 million.

"It's a very efficient mechanism for establishing the economics of the transaction at a later date," said Mr. Stivers. "It allows you to pin down the financing when you want to."

Weyerhaeuser has the option to fix rates in increments of $10 million or more, giving the firm the opportunity to pick six dates during the next seven months in its rate bet.

"The volatility that we have in the market gives them a lot of flexibility," said Mr. Mazzilli. "They can pick the exact time. Even if we have a rally in the market from 10 o'clock to 12 o'clock and the bond market loses 20 basis points, they can call up and fix the rate.

"It provides us an innovative way to provide the client some flexibility, while we have ways of hedging this on our balance sheets so we can eliminate most of the risk."

Although corporations could hedge borrowings on their own, the ins and outs of hedging are esoteric to many. Moreover, signing private hedging agreements with investment banks keeps the transaction

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Shelf registration use restricted

WASHINGTON — The Securities and Exchange Commission has restricted the use of shelf registration to corporations that have a widespread market following and where procedures may be adopted for continuous due diligence scrutiny of the firms to ensure the protection of investors.

Future users are likely to be U.S. companies with more than $150 million in stock outstanding.

Of the shelf registration filings between March 1982 and September 1983, 55% were so the companies could contribute the stock to employee benefit plans and dividend or interest reinvestment plans, according to the SEC. These filings represented 26% of the $181 billion the companies sought to raise by shelf registered securities during the period.

Firms where due diligence concerns need to be addressed will not be allowed to use shelf registration, the SEC said in a final report dated Nov. 17.

Final modifications on Rule 415 limit its availability to offerings where benefits of shelf registration are most significant and where the securities qualify to be registered on Form S-3 or F-3.

Forms S-3 and F-3 provide short-form registration for a variety of transactions, including primary offerings of investment-grade debt and non-convertible preferred securities, and primary offerings where the registrant meets certain float requirements to ensure widespread market following.

Rule 415, a controversial two-year experiment, allowed qualifying corporations to preregister debt and equity securities and issue them "off the shelf" at favorable times for two years.

The rule was made permanent in a four-to-one vote Nov. 10 and will be effective in its final form Dec. 31.

The dissenting vote was cast by Barbara S. Thomas, who feared the shelf registration

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Mergers, acquisitions number 677 in third quarter; near record

Announcements were up 18% from the same quarter 1982

CHICAGO — Mergers and acquisitions announcements in the third quarter of 1983 came close to a seven-year record for any quarter, reports W.T. Grimm & Co., merger consultant and publisher of the Mergerstat Review, a merger data bank.

According to Willard T. Grimm, chairman, the acquisition of privately held companies — up 24% from the second quarter — and divestitures — up 12% — boosted mergers and acquisitions activity.

There were 677 merger and acquisition announcements in third-quarter 1983 vs. the 1976 second-quarter record of 713. The 1983 statistic represents an 18% increase from the 574 announcements in the third quarter of 1982.

The nine-month total for 1983 was 1,812, up only 2% from 1982.

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	1st qtr.	2nd qtr.	3rd qtr.	nine months	
	1983			1983	1982
Divestitures	194	236	264	694	654
Acquisition of publicly traded companies	39	51	40	130	140
Acquisition of privately held companies	289	282	350	921	934
Acquisition of foreign sellers	18	26	23	67	44
Totals	540	595	677	1,812	1,772

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Acquisition, mergers . . .

The year's five largest completed or pending mergers and acquisitions transactions as of Sept. 22, 1983.

- The $5.1 billion merger between Santa Fe Industries Inc. (*Salomon Brothers*) and Southern Pacific Co. (*Morgan Stanley*);
- The $2.4 billion divestiture of Utah International Inc. by General Electric Co. (*Morgan Stanley*) to Broken Hill Proprietary Co. of Australia (*First Boston*);
- RCA Corporation's (*Lehman Bros., Lazard Freres*) divestiture of C.I.T. Financial Corp. to Manufacturers Hanover Corp. (*Goldman, Sachs*) for $1.5 billion;
- The acquisition of Natomas Co. (*Salomon Brothers, Lazard Freres*) by Diamond Shamrock Corp. (*Kidder Peabody*) for $1.4 billion in stock;
- The $1.2 billion merger between Mercantile Texas Corp. (*First Boston*) and Southwest Bancshares Inc. (*Goldman, Sachs*).

Sources: W.T. Grimm & Co. and The First Boston Corporation.

Continued from page 33

The acquisition of 350 privately held firms accounted for 52% of all activity in the third quarter of 1983.

Mr. Grimm said a stronger economy and higher stock prices permitted buyers to make more attractive offers to sellers.

The average price-earnings ratio for acquisitions in the first nine months rose from 14 in the 1982 period to 16.9 in 1983.

During the same periods, a surging stock market contributed to a drop in the premium paid over market, from 50.3% in 1982 to 37% in 1983.

"There were 264 divestitures in the 1983 third quarter, or 39% of all activity in that period," said Tomislava Simic, director of research. "Divestitures with price tags of $100 million or more grew from seven in the first nine months of 1978 to 37 in the comparable 1983 period. A number of companies divested large businesses acquired only a few years ago."

She cited General Electric Co.'s sale of Utah International for $2.4 billion to Broken Hill Proprietary Co. of Australia, and RCA Corp.'s $1.5 billion divestiture of C.I.T. Financial Corp. to Manufacturers Hanover Corp., as examples.

More divestitures are taking the form of leveraged buy-outs, in which management of an operating division becomes the equity holder, Ms. Simic said. Of the 694 divestitures in the first nine months of 1983, 104 or 15% were management buy-outs vs. 49 or 6% in all of 1978.

Megadeals — transactions valued at $100 million or more — rose from 88 a year ago to 95 in the first nine months of 1983. Big deals dominated the financial services and natural resources industries, with total dollar values of $14.3 billion and $12.3 billion, respectively.

The total dollars paid for all transactions where the purchase price was known in the first nine months of 1983 increased 26%, to $53.3 billion from $42.3 billion in the comparable period last year.

Stock, the dominant form of payment in the first half of 1983, was replaced by combination payments in the third quarter. The combinations included cash, stock and debt in 35% of the deals whose terms were known in the nine-month period.

Deterred by a strong dollar, foreign buyers acquired only 89 American companies in the first nine months of 1983 vs. 121 in 1982. ■

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1980–1982 (three years)	+23.9%	+15.2%	+8.7%

BEAR MARKET YEARS	First Wisconsin Special Equity Fund	Standard & Poor's 500	Difference %
1974 performance	(9.4%)	(26.5%)	+17.1%
1977 performance	+0.2%	(7.3%)	+ 7.5%
1981 performance	+8.4%	(4.9%)	+13.3%

3 HIGH-QUALITY CHARACTERISTICS*

Quality Characteristics* (As of December 31, 1982)	First Wisconsin Special Equity Fund	Standard & Poor's 500
5-year earnings/share growth	16.5% per annum	11.1% per annum
5-year dividend/share growth	16.1% per annum	13.3% per annum
Average return on equity — 5 years	16.5%	16.0%
Theoretical reinvestment rate	15.6%	10.4%
Debt to capital ratio	34.7%	34.2%

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*As measured by Value Line Corporation.

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New CEOs are technicians

NEW YORK — Newly appointed chief executive officers at some of the largest companies in America come from technical backgrounds vs. finance backgrounds five years ago, according to Management Practice Consulting Partners, a management consultancy.

A "startling" 25.4% of newly appointed chief executive officers rose from technical backgrounds in 1982 compared with only 12.1% of the sample in 1978.

The number of newly named officers with financial backgrounds declined from 23.3% of the sample in 1978 to 13.4% in 1982, according to the firm's "Route to the Top" survey of the career backgrounds of chief executive officers of 511 of the largest companies in the United States. The annual survey helps identify which managerial specialties corporations are drawing upon to meet challenges. Career backgrounds give clues to the mood and direction of business.

"This year's pattern of CEO backgrounds shows that the big companies, those that set much of the style for U.S. business, have moved beyond the criticism they've drawn in the past from academia and the press," noted a report in Management Practice, a publication of the firm.

"Stunned by the success of the Japanese, and dismayed by the lack of productivity and innovation on the U.S. scene, these critics kept pointing out the dominance of short-term financial calculations in managerial decision-making, and to the preponderance of corporate leaders with financial backgrounds."

The emphasis on financial backgrounds was traced to the recession of 1974-'75, and corporate endeavors to improve liquidity and balance-sheet quality. That corporations are looking for a different leadership also suggests these financial problems are diminishing.

The emphasis on a technically minded leadership indicates firms perceive that a major element of their future success depends on having a technical advantage in a globally competitive environment.

Historically, engineers and technicians have formed the backbone of U.S. management — people with "hands-on, nitty-gritty business experience on factory floors, or ringing customer's doorbells," the report noted. "Despite the fact that companies as different as DuPont, 3M, Motorola, and Procter & Gamble have long trained their leaders through hands-on experience, this accusation was quite true back in the late '70s, when fully 20.5% of CEOs in our sample came from administration," the report added. ■